

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 AGR-01 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FRB-01 H-02 INR-10 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-02 CTME-00 AID-05
SS-15 STR-07 ITC-01 TRSE-00 ICA-20 SP-02 SOE-02
OMB-01 DOE-15 /149 W
-----019014 141304Z /41

R 132032Z JUL 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 4811
INFO ALL EC CAPITALS
AMEMBASSY OTTAWA
AMEMBASSY TOKYO
USMISSION GENEVA

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PASS TREASURY

E.O. 11652: N/A
TAGS: EFIN, FR
SUBJECT: PRESIDENTIAL INTERVIEW ON EVE OF THE SUMMIT
REFTEL: PARIS 22115
1. GISCARD PRESENTED HIS VIEWS AT LENGTH IN AN
INTERVIEW IN LE MONDE DATED JULY 13 BUT APPEARING
JULY 12. A SUMMARY APPEARS IN THE REFTEL. HE SAID
THAT THE PURPOSE OF THE BONN SUMMIT WAS TO ANALYZE
THE INTERNATIONAL ECONOMIC SITUATION AND TO DRAW-UP
A CONCERTED ACTION AIMED AT INCREASING ECONOMIC
ACTIVITY AND IMPROVING EMPLOYMENT. HE DESCRIBED
THE CURRENT ECONOMIC SITUATION WHICH HAS LASTED
FOUR YEARS AS NOT APPLYING UNIFORMLY TO ALL
COUNTRIES IN TERMS OF GROWTH, UNEMPLOYMENT AND
INFLATION. IN ORDER TO RETURN TO AN EQUILIBRIUM
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SITUATION AND ELIMINATE THE DEFLATIONARY TENDENCIES
WHICH BRAKE ECONOMIC ACTIVITY AND EMPLOYMENT, ALL
COUNTRIES MUST SHARE THE RESPONSIBILITY.

2. EXTERNAL EQUILIBRIUM: IN HIS OPINION, WHAT IS
OF ABSOLUTELY PARAMOUNT IMPORTANCE IS THE
REDUCTION OF US OIL IMPORTS. SINCE 1973 US OIL

IMPORTS HAVE DOUBLED IN VOLUME WHEREAS THE EC HAS REDUCED ITS IMPORTS. THE US MUST BE SHOWN THAT WORLD ECONOMIC RECOVERY IS DEPENDENT ON A SUBSTANTIAL REDUCTION IN ITS PETROLEUM IMPORTS. PRESIDENT CARTER HAS SEVERAL MEANS AVAILABLE OUTSIDE SENATE ACTION TO ACT DIRECTLY ON REDUCING ENERGY CONSUMPTION. IN RESPONSE TO THE QUESTION "ARE YOU THINKING OF A COMBINED EFFORT BY EUROPEAN COUNTRIES AND JAPAN TO GET THE US TO AGREE?" GISCARD RESPONDED THAT "IF THERE IS NO ACTION IN THIS DOMAIN, EVERYTHING ELSE WE ENVISAGE WILL BE IN VAIN." HOWEVER, HE ADDED THAT A CONCERTED ACTION BETWEEN THE EC AND JAPAN WITHOUT THE PARTICIPATION OF THE US WOULD NOT BE REALISTIC.

3. GISCARD SAID THAT THE SECOND REQUIRED MEASURE MUST BE THE REDUCTION OF THE JAPANESE TRADE SURPLUS. IT IS NOT NORMAL THAT THE SECOND LARGEST INDUSTRIAL COUNTRY SHOULD BE EXPERIENCING A GROWING COMMERCIAL SURPLUS. THE EUROPEANS WILL DEMAND AT BONN THAT THE JAPANESE PRESENT DEFINITE ESTIMATES SHOWING A REDUCTION IN THEIR COMMERCIAL SURPLUS. JAPAN MUST ALSO INCREASE SUBSTANTIALLY ITS AID TO LESS DEVELOPED COUNTRIES.

4. IN CONTRAST TO THE US AND JAPAN, EUROPE IS UNCLASSIFIED

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IN BALANCE OF PAYMENT EQUILIBRIUM. ITS SLIGHT COMMERCIAL DEFICIT IS COMPENSATED BY ITS SURPLUS ON SERVICES. ITS CURRENT DEFICIT IS DUE TO ITS AID TRANSFERS WHICH ARE LARGER THAN THOSE OF OTHER AREAS. THEREFORE, IT IS NOT EUROPE WHICH NEEDS TO CONTRIBUTE TO CORRECT ITS EXTERNAL DISEQUILIBRIUM.

5. EUROPEAN MONETARY SYSTEM: FOR EUROPE, THE PROBLEM IS DIFFERENT. IT, ALONE, OF THE FOUR WORLD INDUSTRIALIZED ZONES IS EXPERIENCING INTERNAL MONETARY INSTABILITY. THIS IS PARTICULARLY DETRIMENTAL BECAUSE A LARGE PART OF ITS FOREIGN TRADE IS WITHIN THE EC. IN CREATING A ZONE OF MONETARY STABILITY THE EC COUNTRIES WILL THUS PROTECT HALF OF THEIR FOREIGN TRADE FROM MONETARY FLUCTUATIONS WHILE CREATING A SUPPLEMENTARY INCENTIVE FOR THE EXPANSION OF TRADE. THE CREATION OF THIS ZONE CORRESPONDS NOT ONLY TO THE LEGITIMATE DESIRE TO PURSUE THE ORGANIZATION OF EUROPE BUT IT WILL ALSO CONTRIBUTE TO THE IMPROVEMENT OF THE ECONOMIC SITUATION.

6. GISCARD EXPECTS THAT THE JULY 24 MEETING OF

FINANCE MINISTERS WILL DRAW UP AN OUTLINE OF
THE MONETARY SCHEME, BASED ON THE JOINT FRENCH-

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GERMAN TEXT. TECHNICAL WORK WILL BE CONTINUED
BY THE EC COMMITTEE OF GOVERNORS OF CENTRAL BANKS,
THE MONETARY COMMITTEE, ETC. BY OCTOBER THE EC
WILL PRESENT A PRECISE TEXT. THE EC WILL VOTE ON
THIS TEXT, AFTER BILATERAL CONVERSATIONS, AT THE
EUROPEAN COUNCIL IN DECEMBER. HE IS CONVINCED
THAT A SOLUTION WILL BE ADOPTED AT THAT TIME.

7. HE SAID THAT THE NEW ARRANGEMENT IS INSPIRED
BY THE BRETTON WOODS SYSTEM. IN HIS OPINION, THE
NEW SYSTEM WILL NOT IMPOSE ANY MORE DISCIPLINE THAN
THE PREVIOUS SYSTEM. IN FACT, THERE WILL BE LESS
DISCIPLINE AND OF A VERY DIFFERENT TYPE SINCE THERE
EXIST NO SERIOUS ADJUSTMENT PROBLEMS AMONG THE
MEMBERS OF THE FUTURE EUROPEAN MONETARY ZONE. THUS,
HE BELIEVES IT IS COMPLETELY CONSISTENT TO HAVE
AT THE SAME TIME A SYSTEM OF FLOATING RATES WITH
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REGARD TO COUNTRIES
OUTSIDE THE EUROPEAN MONETARY SYSTEM, PERMITTING
THE ESTABLISHMENT OF A NEW EQUILIBRIUM, WHILE
CREATING AND MAINTAINING A SYSTEM OF STABLE
RATES WITHIN THE ZONE WHERE NO MAJOR ADJUSTMENT
IS NECESSARY.

8. GISCARD BELIEVES THAT THIS SYSTEM WILL
BE BETTER EQUIPPED TO WITHSTAND FLUCTUATIONS
THAN THE SNAKE. THE SNAKE IS UNIQUELY A SYSTEM
OF MARKET INTERVENTION WITHOUT ANY INSTITUTIONS
TO BACK IT UP. IN CONTRAST, IN THE NEW SYSTEM
EVEN THE COUNTRIES WHICH ARE NOT OBLIGED TO
INTERVENE ON THE MARKET WILL CONTRIBUTE TO THE
SUPPORT OF THEIR PARTNERS' CURRENCY. THE SYSTEM
OF AUTOMATIC CREDITS MEANS THAT EACH COUNTRY WILL
INTERVENE BOTH ON ITS OWN ACCOUNT AND FOR THE
ACCOUNT OF THE GROUP.

9. GISCARD SAID THAT NATURALLY THIS SUPPOSES THAT
THE PARTICIPATING COUNTRIES WILL SEARCH A CONVERGENCE
IN THEIR ECONOMIC POLICIES. THE POSSIBILITY
TO CHANGE EXCHANGE RATES WILL EXIST, BUT THESE
CHANGES WILL BE EXCEPTIONAL AND IN CONJUNCTION WITH D
FUNDAMENTAL MODIFICATIONS OF THE ECONOMIC SITUATION.

10. GISCARD WAS ASKED WHETHER PRESIDENT CARTER'S
APPROVAL IN PRINCIPLE OF THE MONETARY ARRANGEMENT
WAS A REAL OR SUPERFICIAL APPROVAL. GISCARD
REPLIED THAT PRESIDENT CARTER HAD SAID THAT IT WAS A
DECISION WHICH CONCERNED THE EUROPEANS BUT THAT
HE HAD ADDED THAT A "GREATER MONETARY STABILITY IN
EUROPE IS SOMETHING THAT THE US WOULD CONSIDER
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FAVORABLY." GISCARD SAID THAT THIS IS A POLITICAL
POINT OF VIEW. THE ECONOMISTS AT THE TREASURY WILL
CAREFULLY EXAMINE THE CONSEQUENCES OF THE EUROPEAN
MONETARY SYSTEM ON THE WORLD MONETARY ORGANIZATION
AND ON THE SITUATION OF THE DOLLAR. ITS CREATION
WILL BRING ABOUT CERTAIN MODIFICATIONS IN THE CURRENT
WORLD MONETARY SYSTEM.

11. WHEN ASKED TO WHAT DOES HE ATTRIBUTE WEST
GERMANY'S CHANGE IN ATTITUDE CONCERNING THESE PROBLEMS,

GISCARD RESPONDED THAT TWO FACTORS WERE INVOLVED. WEST GERMANY IS AWARE OF EUROPE'S INTEREST IN TAKING AN INDEPENDENT LINE ON A CERTAIN NUMBER OF SUBJECTS SUCH AS NUCLEAR POLICY. SECONDLY, CHANCELLOR SCHMIDT BELIEVES THAT GERMAN ECONOMIC GROWTH WOULD BE MORE REGULAR AND ASSURED IF IT WERE NOT SUBJECT TO VOLATILE EXCHANGE RATE CHANGES.

12. GISCARD SAID THAT HE HOPED THAT THE UK WOULD PARTICIPATE IN THE NEW ARRANGEMENT BUT IF IT DECIDED IT WAS NOT ABLE TO AT THIS TIME, IT WOULD BE NECESSARY TO CONTINUE WITH ESTABLISHMENT OF THE SYSTEM WHILE PERMITTING EVENTUAL PARTICIPATION BY OTHER COUNTRIES.

13. ECONOMIC EXPANSION: GISCARD WAS ASKED WHAT HE THOUGHT COULD BE DONE TO STIMULATE ECONOMIC GROWTH. HE SAID THAT AN IMPORTANT STEP WOULD BE THE RESTORATION OF MONETARY STABILITY. ALTHOUGH IT IS DIFFICULT TO GIVE A PRECISE FIGURE, THE EFFECT OF EXCHANGE RATE INSTABILITY ON EUROPEAN GROWTH COULD NOT

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HAVE BEEN NEGLIGIBLE SINCE THOSE AREAS WHICH HAD NOT SUFFERED FROM INTERNAL INSTABILITY, I.E. US AND JAPAN, HAD HAD A HIGHER RATE OF GROWTH THAN THE EC.

14. HE SAID THAT A GENERAL ECONOMIC STIMULUS WOULD NOT BE SUFFICIENT IN ITSELF TO RETURN TO THE PRE-OIL CRISIS ECONOMIC SITUATION. CERTAIN FUNDAMENTAL CHANGES WOULD HAVE TO BE MADE IN ORDER TO CREATE A BASE ON WHICH ECONOMIC EXPANSION WOULD ONCE AGAIN BECOME POSSIBLE. THIS IS WHY, IN HIS OPINION, A REDUCTION OF THE OIL DEFICIT IS THE MOST IMPORTANT STEP TOWARD THE RESTORATION OF EUROPEAN GROWTH.

15. GISCARD DID ADD, HOWEVER, THAT THE SUMMIT COUNTRIES WOULD SEEK TO INCREASE THEIR RATES OF UNCLASSIFIED

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GROWTH BY PERHAPS 1-1.5 PERCENT. THIS WOULD RESULT IN A DECREASE IN UNEMPLOYMENT AND A CHANGE IN DIRECTION OF THE ECONOMIC PROCESS WHICH IS STILL ORIENTED TOWARD STAGNATION.

16. EXPANSION OF THE EC: GISCARD FAVORS THE ENTRY OF OTHER EUROPEAN COUNTRIES INTO THE EC, SUCH AS SPAIN AND GREECE. HOWEVER, HE RECOGNIZES THAT THIS WILL CREATE FURTHER PROBLEMS FOR THE AGRICULTURAL AREAS OF FRANCE, PARTICULARLY THE ALREADY TROUBLED SOUTHWEST.

17. AID TO LDC'S: GISCARD BELIEVES THAT IT IS NECESSARY TO CREATE AN ADDITIONAL SYSTEM OF DEVELOPMENT AID DESIGNED BOTH TO SERVE DEVELOPMENT NEEDS AS WELL AS TO CREATE ADDITIONAL DEMAND TO CONTRIBUTE TO IMPROVING THE CURRENT DEFLATIONARY SITUATION. HE CONSIDERS IT INDISPENSABLE THAT THE SOCIALIST COUNTRIES TAKE THEIR SHARE IN THIS EFFORT.

18. INTERDEPENDENCE: GISCARD AT SEVERAL POINTS STRESSED MUTUAL INTERDEPENDENCE IN ANY ATTEMPT TO CORRECT CURRENT ECONOMIC PROBLEMS. IN THIS REGARD, HE SAID THAT FRANCE WOULD BE READY TO CONTRIBUTE ITS SHARE, BUT IT WAS NECESSARY THAT EACH OF THE OTHER COUNTRIES BE WILLING TO MAKE A SIGNIFICANT CONTRIBUTION. OTHERWISE, HE THOUGHT SUCH ECONOMIC SUMMITS WERE USELESS, IF NOT EVEN HARMFUL SINCE THEY MIGHT DISAPPOINT BUILT-UP EXPECTATIONS.

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